

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide

- At September 30, 2008, the State's assets exceeded its liabilities by \$15.7 billion.
- The State's unrestricted net assets were (\$2.9) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- Revenues of \$47.3 billion, along with beginning net assets, supported expenses of \$47.8 billion during fiscal year 2008. As a result, the State's total net assets decreased by \$495.8 million (3.1 percent). The decrease relates mostly to continued high unemployment expenses reported in the business activities. In addition, the State began reporting other postemployment benefit obligations which totaled \$609.5 million at the end of the fiscal year.

Fund Level

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.9 billion. Of this amount, \$1.1 billion is *unreserved fund balance* in the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds and, therefore, available to fund general-purpose expenditures of those funds in future years. The remaining \$2.8 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund (BSF), and the School Aid Fund (SAF), closed the fiscal year with a combined total fund balance of \$1.5 billion. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$457.9 million and \$2.2 million, respectively. In addition, another \$833.1 million is reserved for specific purposes such as multi-year projects and restrictively financed programs. In the School Aid Fund, the entire fund balance of \$254.6 million is reserved for specific purposes.
- The State's proprietary funds reported net assets at year-end of (\$48.3 million). This represents a decrease of \$412.2 million (113.3 percent) compared to the prior year-end, mostly resulting from the increase in unemployment benefits paid from the Michigan Unemployment Compensation Funds.

Long-term Debt

- The State's total long-term debt (bonds and notes payable) as of September 30, 2008, was \$8.2 billion, a slight increase of \$1.5 million from the prior year. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 8.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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The Statement of Net Assets (pages 16 and 17) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or declining.

The Statement of Activities (pages 18 and 19) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 18 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 23 and 25) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g. land, buildings, and infrastructure)	No	Yes
Liability for earned but deferred revenue	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Net pension assets in excess of the annual required contribution	No	Yes
Deferred charges for debt issuance costs	No	Yes
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e. claims and judgments, compensated absences, and net pension obligations)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned deferred revenue	Yes	Yes

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Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financial sources, uses, and expenditures resulting from debt issuance	Yes	No
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts, and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 42 of this report.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 22 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 108 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* - Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- *Proprietary funds* - When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs - such as risk management and state sponsored group insurance activities. Internal service funds are reported as governmental activities on the government-wide statements.

- *Fiduciary funds* - The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 34. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$495.8 million (3.1 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$83.6 million (0.5 percent) and business-type activities had a decrease of \$412.2 million (113.3 percent).

Statement of Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
Current and other non-current assets	\$11,053.3	\$10,297.2	\$ 838.4	\$ 1,276.4	\$11,891.6	\$11,573.6
Capital assets	19,839.2	19,436.6	.8	.4	19,840.0	19,437.0
Total assets	30,892.4	29,733.8	839.2	1,276.8	31,731.6	31,010.6
Current liabilities	4,957.3	4,658.4	247.2	594.9	5,204.5	5,253.4
Long-term liabilities	10,214.5	9,271.2	640.3	318.0	10,854.7	9,589.2
Total liabilities	15,171.8	13,929.6	887.5	912.9	16,059.3	14,842.5
Net assets:						
Invested in capital assets, net of related debt	15,909.3	15,739.1	.8	.4	15,910.1	15,739.5
Restricted	2,599.8	2,292.8	72.7	358.7	2,672.4	2,651.5
Unrestricted	(2,788.4)	(2,227.7)	(121.8)	4.8	(2,910.2)	(2,222.9)
Total net assets	\$15,720.6	\$15,804.2	\$ (48.3)	\$ 363.9	\$15,672.3	\$16,168.1

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

The largest component of the State's net assets (\$15.9 billion) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising \$2.7 billion of the total. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were (\$2.9) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

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The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

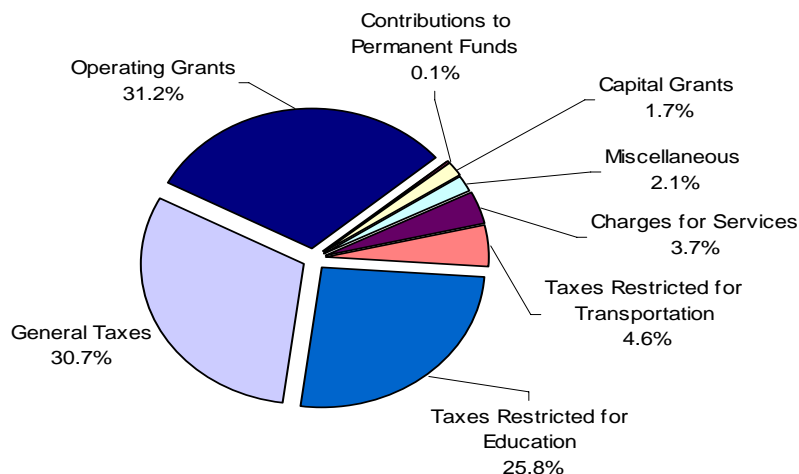
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007 *	2008	2007	2008	2007 *
Revenues						
Program revenues						
Charges for services	\$ 1,562.3	\$ 1,947.0	\$ 5,122.3	\$ 4,876.6	\$ 6,684.7	\$ 6,823.6
Operating grants	12,963.5	12,300.1	44.3	55.8	13,007.8	12,355.9
Capital grants	719.5	627.1	-	-	719.5	627.1
General revenues						
General taxes	13,162.8	12,077.0	13.7	13.1	13,176.4	12,090.1
Taxes restricted for educational purposes	10,884.2	10,456.2	-	-	10,884.2	10,456.2
Taxes restricted for transportation purposes	1,935.0	1,965.3	-	-	1,935.0	1,965.3
Unrestricted investment and interest earnings	7.6	12.1	2.2	5.1	9.8	17.2
Miscellaneous	865.4	1,124.8	-	-	865.4	1,124.8
Total revenues	<u>42,100.4</u>	<u>40,509.5</u>	<u>5,182.5</u>	<u>4,950.6</u>	<u>47,282.8</u>	<u>45,460.0</u>
Expenses						
General government	1,671.9	2,205.7	-	-	1,671.9	2,205.7
Education	15,080.9	14,660.2	-	-	15,080.9	14,660.2
Human Services	4,699.0	4,453.5	-	-	4,699.0	4,453.5
Public safety and corrections	2,895.1	2,583.9	-	-	2,895.1	2,583.9
Conservation, environment, etc.	572.8	597.0	-	-	572.8	597.0
Labor, commerce, and regulatory	995.7	963.4	-	-	995.7	963.4
Health services	11,623.0	10,832.9	-	-	11,623.0	10,832.9
Transportation	3,235.4	3,191.8	-	-	3,235.4	3,191.8
Tax expenditures	931.6	883.4	-	-	931.6	883.4
Intergovernmental - revenue sharing	1,076.4	1,071.1	-	-	1,076.4	1,071.1
Interest on long-term debt	387.8	345.4	-	-	387.8	345.4
Liquor Purchase Revolving Fund	-	-	622.0	602.3	622.0	602.3
State Lottery Fund	-	-	1,636.9	1,654.8	1,636.9	1,654.8
Attorney Discipline System	-	-	5.0	4.3	5.0	4.3
Michigan Unemployment Compensation Funds	-	-	2,403.0	2,012.1	2,403.0	2,012.1
Total expenses	<u>43,169.7</u>	<u>41,788.3</u>	<u>4,666.9</u>	<u>4,273.5</u>	<u>47,836.5</u>	<u>46,061.7</u>
Excess (deficiency) Before Contributions and Transfers	(1,069.3)	(1,278.8)	515.6	677.1	(553.7)	(601.7)
Contributions to permanent fund principal	57.9	26.2	-	-	57.9	26.2
Transfers	927.8	943.5	(927.8)	(943.5)	-	-
Increase (decrease) in net assets	<u>(83.6)</u>	<u>(309.2)</u>	<u>(412.2)</u>	<u>(266.3)</u>	<u>(495.8)</u>	<u>(575.5)</u>
Net assets – beginning – restated	15,804.2	16,113.4	363.9	630.2	16,168.1	16,743.6
Net assets – ending	<u>\$15,720.6</u>	<u>\$15,804.2</u>	<u>\$ (48.3)</u>	<u>\$ 363.9</u>	<u>\$ 15,672.3</u>	<u>\$ 16,168.1</u>

* The prior year columns have been restated. More detailed information regarding the restatements can be found on page 53.

Governmental Activities

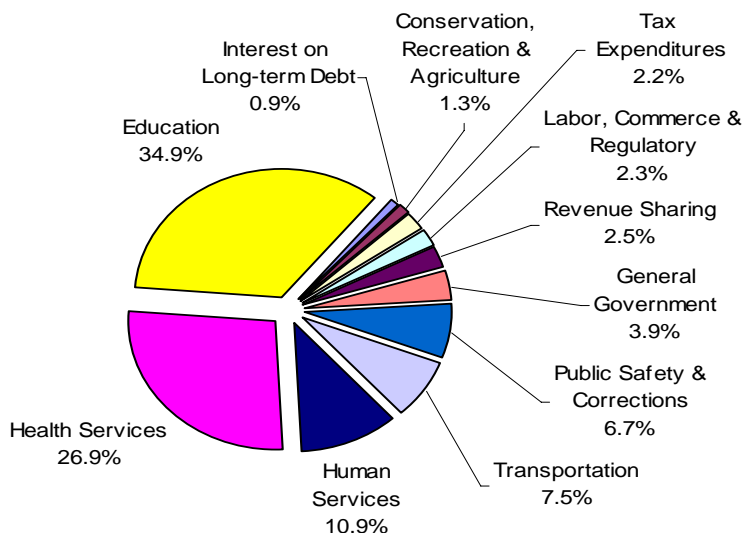
Revenues to fund governmental activities totaled \$42.2 billion for fiscal year 2008. Fund balances and other State assets were also used to support governmental activities. As shown in the accompanying chart, 31.2 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 30.4 percent for educational and transportation purposes. Only 30.7 percent of the revenues were available for general use.

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2008**
(\$42.2 billion)



Expenses related to governmental activities totaled \$43.2 billion during fiscal year 2008. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health services represent the governmental activities' largest spending categories, accounting for 61.8 percent of the spending.

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2008**
(\$43.2 billion)



Business-type Activities

The business-type activities' net assets decreased by \$412.2 million (113.3 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$417.2 million (127.6 percent).
- The State Lottery Fund's net assets increased by \$4.9 million (15.4 percent), which resulted from fewer prize award expenses during the fiscal year.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.9 billion. Of this total amount, \$1.1 billion constitutes unreserved fund balance, which is available for appropriation for the general purposes of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The transportation-related funds (\$108.6 million) and the other State funds (\$418.1 million) comprise a significant portion of the unreserved fund balance. Although reported as unreserved fund balances, these amounts are dedicated to those specific funds and can only be used for specific activities. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2008, the General Fund unreserved fund balance was \$457.9 million and the reserved fund balance was \$833.1 million. Fund balance increased by \$308.9 million (31.5 percent) as a result of controlled spending and higher than expected general purpose tax revenues.

General Fund Budgetary Highlights:

On October 1, 2007, the Governor signed a 30-day continuation budget to allow the Legislature more time to pass individual budgets for fiscal year 2008. As a result, the General Fund original budget was only \$2.5 billion. The Legislature passed full budgets for each state agency and department in late October 2007.

For fiscal year 2008, the Legislature enacted gross appropriations for all funds totaling \$43.9 billion. The general fund-general purpose appropriations totaled \$10.1 billion, which included certain boilerplate appropriations totaling \$100.8 million.

General purpose tax revenues of \$9.6 billion were \$2.8 billion more than the original estimate of \$6.8 billion. A portion of the increase is attributed to the change in the legislation for business taxes. Effective January 1, 2008, the Single Business Tax was replaced by the Michigan Business Tax. The State recognized \$1.6 billion in Michigan Business Tax revenues during fiscal year 2008 in the General Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$159.2 million and restricted revenue authorized, but not spent, of \$9.3 million. At fiscal year-end, excess restricted revenues of \$434.2 million carried forward into fiscal year 2009 and are available upon appropriation.

All agencies finished the year with net lapses. However, State Police reported line item over-expenditures of \$1.4 million.

School Aid Fund

Fund balance at September 30, 2008, totaled \$254.6 million, an increase of \$160.6 million from the prior year. Revenues and transfers to the fund totaled \$13.0 billion, up \$143.1 million from the prior year. Beginning in fiscal year 2008, the fund received Michigan Business Tax revenues, totaling \$341.0 million. Expenditures totaled \$12.8 billion, an increase of \$69.1 million over the previous year. The School Aid Stabilization Fund ended the year with \$247.1 million in reserved fund balance.

Counter-Cyclical Budget and Economic Stabilization Fund

During the year, the BSF received \$66 thousand in interest earnings. As a result, fund balance increased to \$2.2 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2008, the State had invested \$19.8 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$184.4 million.

Capital Assets as of September 30
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,344.2	\$ 3,235.2	\$ -	\$ -	\$ 3,344.2	\$ 3,235.2
Land improvements	88.9	84.0	-	-	88.9	84.0
Buildings and improvements	2,113.1	2,075.0	-	-	2,113.1	2,075.0
Equipment	224.4	199.0	.8	.4	225.2	199.4
Infrastructure	12,895.9	12,814.9	-	-	12,895.9	12,814.9
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	18,686.3	18,427.9	.8	.4	18,687.1	18,428.2
Construction in progress	1,152.9	1,008.8	-	-	1,152.9	1,008.8
Total	<u>\$19,839.2</u>	<u>\$19,436.6</u>	<u>\$.8</u>	<u>\$.4</u>	<u>\$19,840.0</u>	<u>\$19,437.0</u>

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,478 lane miles of roads and 4,761 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have more than 70% of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2007, indicated that 83.6% of roads were considered fair or better.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2007) indicated that the condition of the bridges had improved from the condition reported for 2006. For calendar year 2007, 88.6% of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$250.0 million for fiscal year 2009. In addition, \$329.2 million of unspent capital outlay authorizations that existed at September 30, 2008, are available to spend in fiscal year 2009. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA) and the Michigan Tobacco Settlement Finance Authority (MTSFA), blended component units of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA or MTSFA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. MTSFA's bonds provided funding to the 21st Century Jobs Fund for economic development initiatives and to support General Fund and School Aid Fund programs. More detailed information regarding the State's long-term obligations is presented in Notes 13 and 15 to the financial statements.

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Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the State)	\$1,487.4	\$1,487.5	\$ -	\$ -	\$1,487.4	\$1,487.5
Revenue bonds and notes (backed by specific tax and fee revenues)	6,727.4	6,725.9	-	-	6,727.4	6,725.9
Total	<u>\$8,214.8</u>	<u>\$8,213.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,214.8</u>	<u>\$8,213.3</u>

During the year, the State and the MTSFA issued refunding bonds of \$436.2 million and paid \$361.9 million to a refunded bond escrow agent to cover future debt service payments. In addition, the SBA issued \$96.5 million in new bonds for construction of state and university buildings.

Bond Ratings

The State's general obligations are rated AA- stable outlook by Standard & Poors and Aa3 stable outlook by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2008, the State issued and repaid short-term borrowing totaling \$1.4 billion.

ECONOMIC CONDITION AND OUTLOOK

Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. Given weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share, and continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's below average employment performance.

For 2008, Michigan employment is estimated to have declined by 77,000 jobs (1.8 percent) – the eighth straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 520,000 jobs. In contrast, Michigan employment had increased approximately 560,000 jobs above its pre-recession peak by this time after the 1990-1991 recession.

Personal income was up an estimated 1.4 percent and wages and salaries income were essentially flat – up just an estimated 0.1 percent in 2008. Both personal income and wages and salaries failed to keep pace with the increase in consumer prices as measured by the Detroit consumer price index (2.9 percent).

Several factors are weighing on the national economy including sharp declines in the housing market and worsening credit markets. As a result, the U.S. economic growth will remain tepid. Given this, Michigan employment is expected to decline in 2009 – although less so than in 2008, with 2009 employment falling by 1.5 percent. In 2009, Michigan personal income is projected to rise 1.9 percent, while wages and salaries are expected to increase 0.7 percent. With 2.5 percent inflation, real (inflation adjusted) personal income is forecast to increase while real wages and salaries are expected to decline in 2009.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at www.michigan.gov/ofm. You can also contact the office by phone at (517) 373-3029.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-3029.